

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CHIPPEWA TOWNSHIP	County ISABELLA
Fiscal Year End 03/31/06	Opinion Date 05/26/06	Date Audit Report Submitted to State 6/23/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

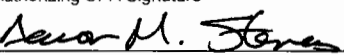
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) ABRAHAM & GAFFNEY, P.C.		Telephone Number 517.351.6836	
Street Address 3511 COOLIDGE ROAD, SUITE 100		City EAST LANSING	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name AARON STEVENS	License Number 1101024055

**Township of Chippewa
Isabella County, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Township of Chippewa
Isabella County, Michigan
March 31, 2006
BOARD OF TRUSTEES

George Grim	Supervisor
Barbara Kowallic	Clerk
Jan Gill	Treasurer
Clair Lapham	Trustee
Michelle Quakenbush	Trustee

Township of Chippewa

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ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Chippewa
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Chippewa, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Chippewa, Michigan as of March 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the Table of Contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Chippewa's financial statements. The accompanying other supplementary information, as identified in the Table of Contents, is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 26, 2006

Township of Chippewa

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2006

New Financial Reporting

In 2005, the Township of Chippewa, Michigan (the "Township") revised and improved its financial reporting document. These changes are a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, customers, and investors with a better understanding of how the Township's money and other assets are managed.

The discussion and analysis of the Township's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2006:

- State shared revenue, our first largest revenue source in the General Fund, was reduced by the State of Michigan by approximately \$2,617 this year. This reduction was the result of reduced sales tax revenues by the State due to budget cuts that are still happening in Michigan. There is a possibility of increases of state shared revenues to local governments if the State of Michigan budget dollars increase.
- Property tax revenues increased approximately \$12,337 from the prior year. The increase is the net result of increased assessments and an increase of population in Chippewa Township.
- The Township did not incur costs for Road Paving projects even though the Township did budget for it. Same reason as in prior years is that Isabella County Road Commission could not match the Township portion due to the lack of funds on their part.
- Total fund balances related to the Township's governmental funds increased by \$224,737.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township of Chippewa as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township of Chippewa in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township of Chippewa acts solely as a trustee or agent for the benefit of those outside the government.

Township of Chippewa
MANAGEMENT'S DISCUSSION AND ANALYSIS
March 31, 2006

The Township as a Whole

The following table shows, in a condensed format, the net assets as of March 31, 2006. This shows a comparative analysis of data from March 31, 2005:

	<u>2005</u>	<u>2006</u>
Assets		
Current assets	\$ 1,287,262	\$ 1,495,274
Capital assets, net	<u>98,293</u>	<u>121,318</u>
Total assets	1,385,555	1,616,592
Liabilities		
Current liabilities	23,232	13,223
Noncurrent liabilities	<u>42,000</u>	<u>-</u>
Total liabilities	<u>65,232</u>	<u>13,223</u>
Net Assets		
Invested in capital assets, net of related debt	98,293	121,318
Unrestricted	<u>1,220,030</u>	<u>1,482,051</u>
Total net assets	<u>\$ 1,320,323</u>	<u>\$ 1,603,369</u>

The Township's total net assets were \$1,603,369 at March 31, 2006. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$1,482,051 at the end of the fiscal year. The net asset invested in capital assets, net of related debt were \$121,318.

	<u>2005</u>	<u>2006</u>
Revenue		
Program revenue:		
Charges for services	\$ 27,205	\$ 26,201
General revenue:		
Property taxes	68,120	75,417
State shared revenue	328,814	326,197
Investment earnings	7,615	15,507
Other revenue	149,906	145,682
Special item	<u>-</u>	<u>42,000</u>
Total revenue	581,660	631,004
Program Expenses		
General government	144,754	145,573
Public safety	109,279	98,390
Public works	16,594	15,030
Community and economic development	29,025	26,838
Other	<u>56,232</u>	<u>62,127</u>
Total program expenses	<u>355,884</u>	<u>347,958</u>
Change in Net Assets	<u>\$ 225,776</u>	<u>\$ 283,046</u>

Township of Chippewa

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2006

Governmental Activities

The Township's governmental revenues and special items totaled \$631,004 with the greatest revenue source being state shared revenue. State shared revenue makes up approximately 55.4 percent of total governmental revenue and property taxes make up approximately 12.8 percent of total governmental revenue. Over the past few years, state shared revenue has decreased and income interest has increased. There has been a decrease in other revenue for the Township and the reason is we are never quite sure what Saginaw Chippewa Indian Tribe will give to the Township in revenue funds.

During the fiscal year, a favorable decision was handed down by the Isabella County Trial Court Chief Judge resulting in the reversal of a judgment payable. The judgment payable in the amount of \$42,000 was recognized in the previous fiscal year.

The Township incurred expenses of \$347,958 during the year. General government makes up 41.8 percent of total governmental expenditures. General government includes Township board, Clerk, Treasurer, Cemetery and various other functions.

The Township's Funds

The analysis of the Township's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township of Chippewa as a whole. The Township of Chippewa's Board of Trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for the fiscal year ended March 31, 2006 include the General Fund, the 1993 G.O. Bonds Debt Service Fund and the Sanders Subdivision Capital Projects Fund.

General Fund Budgetary Highlights

Over the course of the fiscal year, the Township Board made necessary budget adjustments to fund expenditures during the year. Budget amendments were made to cover the increase in cemetery maintenance and office supplies for clerk and zoning enforcer. The Township budget as a whole stayed fairly within the amounts of the original figures 2005/2006 amendment. Although, the Saginaw Chippewa Indian Tribe has been very generous with giving 2% to the Township, which makes it complex as to what figure to budget for other revenues.

Capital Asset and Debt Administration

At the end of the fiscal year, the Township had \$121,318 invested in a broad range of capital assets (net of accumulated depreciation), including buildings, land and equipment.

Current Economic Factors

Paving roads in Chippewa Township is the most significant concern for Chippewa Township. The Township has met with the Isabella County Road Commission the last several years, and due to the lack of funds on the part of the road commission, we have not had any paving in the Township. The Township has had estimates with private companies and the costs were very expensive. The Township will have to wait until the road commission's budget dollars have increased to continue our paving process.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and demonstrate the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Township Clerk or Treasurer at the Township Hall.

BASIC FINANCIAL STATEMENTS

Township of Chippewa
STATEMENT OF NET ASSETS
March 31, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,162,147
Investments	317,960
Special assessments receivable	<u>15,167</u>
Total current assets	1,495,274
Noncurrent assets	
Capital assets not being depreciated	14,965
Capital assets, net of accumulated depreciation	<u>106,353</u>
Total noncurrent assets	<u>121,318</u>
TOTAL ASSETS	1,616,592
LIABILITIES	
Current liabilities	
Accounts payable	6,235
Accrued liabilities	<u>6,988</u>
TOTAL LIABILITIES	13,223
NET ASSETS	
Invested in capital assets, net of related debt	121,318
Unrestricted	<u>1,482,051</u>
TOTAL NET ASSETS	<u><u>\$ 1,603,369</u></u>

See accompanying notes to financial statements.

Township of Chippewa

STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:			
General government	\$ 145,573	\$ 24,884	\$ (120,689)
Public safety	98,390	-	(98,390)
Public works	15,030	1,317	(13,713)
Community and economic development	26,838	-	(26,838)
Other	62,127	-	(62,127)
Total governmental activities	<u>\$ 347,958</u>	<u>\$ 26,201</u>	(321,757)
General revenues:			
Property taxes			75,417
State shared revenue			326,197
Investment earnings			15,507
Miscellaneous			145,682
Special item:			
Reversal of judgment			<u>42,000</u>
Total general revenues and special item			<u>604,803</u>
Change in net assets			283,046
Net assets, beginning of the year			<u>1,320,323</u>
Net assets, end of the year			<u>\$ 1,603,369</u>

See accompanying notes to financial statements.

Township of Chippewa

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2006

	General	Debt Service (1993 G.O. Bonds)	Capital Projects (Sanders Subdivision)	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,093,623	\$ 35,984	\$ 32,540	\$ 1,162,147
Investments	317,960	-	-	317,960
Taxes receivable	-	-	-	-
Special assessments receivable	-	15,167	-	15,167
Due from other funds	9,307	16,065	-	25,372
Advance to other funds	38,000	-	-	38,000
TOTAL ASSETS	\$ 1,458,890	\$ 67,216	\$ 32,540	\$ 1,558,646
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 6,235	\$ -	\$ -	\$ 6,235
Accrued liabilities	6,988	-	-	6,988
Deferred revenue	-	15,167	-	15,167
Due to other funds	-	-	25,372	25,372
Advances from other funds	-	38,000	-	38,000
TOTAL LIABILITIES	13,223	53,167	25,372	91,762
FUND BALANCES				
Reserved for:				
Advances to other funds	38,000	-	-	38,000
Public safety	40,447	-	-	40,447
Unreserved				
Designated for:				
Capital expenditures	-	-	7,168	7,168
Subsequent year's expenditures	165,290	-	-	165,290
Debt service	-	14,049	-	14,049
Undesignated	1,201,930	-	-	1,201,930
TOTAL FUND BALANCES	1,445,667	14,049	7,168	1,466,884
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,458,890	\$ 67,216	\$ 32,540	\$ 1,558,646

See accompanying notes to financial statements.

Township of Chippewa

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Total fund balances - governmental funds **\$ 1,466,884**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	196,126	
Accumulated depreciation is	<u>(74,808)</u>	
Capital assets, net		121,318

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue	<u>15,167</u>
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Net assets of governmental activities **\$ 1,603,369**

See accompanying notes to financial statements.

Township of Chippewa

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended March 31, 2006

	General	Debt Service (1993 G.O. Bonds)	Capital Projects (Sanders Subdivision)	Total Governmental Funds
REVENUES				
Taxes	\$ 80,457	\$ -	\$ -	\$ 80,457
Licenses and permits	1,505	-	-	1,505
Intergovernmental	326,197	-	-	326,197
Charges for services	18,339	-	-	18,339
Interest	13,857	-	1,650	15,507
Other	145,682	8,033	-	153,715
TOTAL REVENUES	586,037	8,033	1,650	595,720
EXPENDITURES				
Current				
General government	168,598	-	-	168,598
Public safety	98,390	-	-	98,390
Public works	15,030	-	-	15,030
Community and economic development	26,838	-	-	26,838
Other	62,127	-	-	62,127
TOTAL EXPENDITURES	370,983	-0-	-0-	370,983
EXCESS OF REVENUES OVER EXPENDITURES	215,054	8,033	1,650	224,737
Fund balances, beginning of year	1,230,613	6,016	5,518	1,242,147
Fund balances, end of year	<u>\$ 1,445,667</u>	<u>\$ 14,049</u>	<u>\$ 7,168</u>	<u>\$ 1,466,884</u>

See accompanying notes to financial statements.

Township of Chippewa

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balances - total governmental funds **\$ 224,737**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	29,461	
Depreciation expense	<u>(6,436)</u>	
Excess of capital outlay over depreciation expense		23,025

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Reversal of judgment	42,000	
Deferred revenue	<u>(6,716)</u>	
		<u>35,284</u>

Change in net assets of governmental activities **\$ 283,046**

See accompanying notes to financial statements.

Township of Chippewa

Fiduciary Funds

STATEMENT OF NET ASSETS

March 31, 2006

	Agency Funds
ASSETS	
Cash	<u>\$ 6,442</u>
LIABILITIES	
Due to State	\$ 643
Due to individuals and agencies	<u> 5,799</u>
	<u>\$ 6,442</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Chippewa Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Isabella County. The Township operates under an elected Township Board, which consists of a Supervisor, Clerk, Treasurer, and two trustees, and provides services in many areas including fire protection, roads, and planning.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Township of Chippewa. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Chippewa contain all the funds controlled by the Township Board.

2. Joint Ventures

The Township participates in the following activity which is considered to be a jointly governed organization in relation to the Township, due to there being no ongoing financial interest or responsibility.

Shepherd Tri-Township Fire Department - The Township of Chippewa, in conjunction with the Townships of Coe and Lincoln, and the Village of Shepherd, has entered into an agreement to provide fire services by creating the Shepherd Tri-Township Fire Department.

Each unit names two members and one alternate from its governing body to serve as the Fire Department's Advisory Board. The Advisory Board has responsibility for adopting an annual budget. Under the arrangement, each unit bears its share of the Fire Department's direct labor costs for fire runs within its boundaries and other costs according to a formula which takes the ratio of population and State Equalized Valuation which each unit involved bears to the total population and State Equalized Valuation of all units involved, and averages the two. The percentages of responsibility for other costs for the year ended November 30, 2005, for the Townships of Chippewa, Coe, and Lincoln and the Village of Shepherd were 44%, 19%, 23%, and 14%, respectively. Annual contributions are made by each unit based upon the budget. The Township paid \$98,390 for operating expenditures, wage reimbursement, and mileage for the year ended March 31, 2006.

The financial activities of the Shepherd Tri-Township Fire Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended November 30, 2005, are available from the Department. As of November 30, 2005, the Department had a fund balance of \$161,268.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, unrestricted State revenue sharing payments, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Township are:

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Debt Service Fund (1993 G.O. Bonds) - The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.
- c. Capital Projects Fund (Sanders Subdivision) - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital projects. Financing and construction of road improvements paid for by special assessments levied against benefited properties are included in this fund.

4. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector guidance.

6. Budgets and Budgetary Accounting

The General Fund budget shown in the required supplementary information to the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level for the General Fund through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between activities, or any revisions that alter the total expenditures of the fund or activity, must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. Individual amendments were appropriately approved by the Township Board as required.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of regular and money market checking and savings accounts. Cash and cash equivalents are recorded at market value.

8. Investments

Investments are recorded at cost, which approximates market value. Investments consist of certificates of deposit with an original maturity of greater than 90 days.

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Property Taxes

The Township of Chippewa bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Isabella County Treasurer on March 1. The Isabella County Treasurer remits payment to the Township on all delinquent real property taxes. The Township then remits these delinquent payments to the applicable units. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2006, the Township levied 0.9795 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2005 levy for property within the Township was \$75,178,500.

10. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Equipment	3 - 15 years

11. Interfund Transactions

During the course of normal operations, the Township has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Township of Chippewa

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township of Chippewa is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of March 31, 2006, the carrying amounts and bank balances for the accounts were as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 1,099,990	\$ 1,102,538
Savings	68,524	68,524
Certificate of Deposit	<u>317,960</u>	<u>317,960</u>
	<u>\$ 1,486,474</u>	<u>\$ 1,489,022</u>

The cash and cash equivalents captions on the financial statements include \$75 in imprest cash.

Deposits of the Township are at federally insured banks located in the State of Michigan, with all accounts maintained in the name of the Township. As of March 31, 2006, the Township accounts were insured by the FDIC for \$467,103 and the amount of \$1,021,919 was uninsured and uncollateralized.

Due to significantly higher cash flows at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Interest Rate Risk

The Township has not adopted a policy that indicates how the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of Credit Risk

The Township has not adopted a policy that indicates how the Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2006:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>
Cash and cash equivalents	\$ 1,162,147	\$ 6,442
Investments	<u>317,960</u>	<u>-</u>
	<u>\$ 1,480,107</u>	<u>\$ 6,442</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at March 31, 2006, are as follows:

Due to General Fund from:	
Capital Projects Fund	<u>\$ 9,307</u>
Due to Debt Service Fund from:	
Capital Projects Fund	<u>\$ 16,065</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details advances receivable and payable at March 31, 2006:

Advance from General Fund to:	
Debt Service Fund	<u>\$ 38,000</u>

The balance of \$38,000 advanced to the Debt Service Fund from the General Fund resulted from loans made for payment of debt.

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Balance</u> <u>April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Mar. 31, 2006</u>
Capital assets not being depreciated				
Land	\$ 14,965	\$ -	\$ -	\$ 14,965
Capital assets being depreciated				
Buildings	141,500	17,986	-	159,486
Equipment	<u>10,200</u>	<u>11,475</u>	<u>-</u>	<u>21,675</u>
Totals at historical cost	151,700	29,461	-0-	181,161
Less accumulated depreciation for:				
Buildings	(63,492)	(3,168)	-	(66,660)
Equipment	<u>(4,880)</u>	<u>(3,268)</u>	<u>-</u>	<u>(8,148)</u>
Total accumulated depreciation	<u>(68,372)</u>	<u>(6,436)</u>	<u>-0-</u>	<u>(74,808)</u>
Net capital assets being depreciated	<u>83,328</u>	<u>23,025</u>	<u>-0-</u>	<u>106,353</u>
Capital assets, net	<u>\$ 98,293</u>	<u>\$ 23,025</u>	<u>\$ -0-</u>	<u>\$ 121,318</u>

Depreciation expense was charged to the following governmental activities:

General government	<u>\$ 6,436</u>
--------------------	-----------------

NOTE F: RETIREMENT PLAN

The Township of Chippewa is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Chippewa Pension Plan is a money purchase defined contribution pension benefit plan. During the year ended March 31, 2006, the Township of Chippewa was required to contribute for all eligible employees at a minimum rate of 15% of wages.

For the year ended March 31, 2006, the Township had a total payroll of \$73,825. The Township of Chippewa Retirement Plan covered a payroll of \$34,995. The Township made contributions to the retirement plan in the amount of \$7,575.

NOTE G: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the Township has set aside for specific purposes.

The following are the various fund balance reserves as of March 31, 2006:

General Fund	
Reserved for advances to other funds	\$ 38,000
Reserved for public safety	<u>40,447</u>
	<u>\$ 78,447</u>

Township of Chippewa
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE G: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

The following are the fund balance designations as of March 31, 2006:

General Fund	
Designated for subsequent year's expenditures	\$ 165,290
Debt Service Fund	
Designated for debt service	14,049
Capital Projects Fund	
Designated for capital expenditures	<u>7,168</u>
	<u>\$ 186,507</u>

NOTE H: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The Township also maintains commercial insurance coverage for workers' compensation.

NOTE I: RELATED PARTY TRANSACTIONS

The Township engages in business transactions with two vendors, Grim Printing and Grim Enterprises, which are owned and operated by the Township supervisor. These transactions are made in the normal course of business and amounted to \$24,887 for the year ended March 31, 2006.

NOTE J: BUILDING AND ZONING FINANCIAL INFORMATION

The Township elected to report the financial activities of the building and zoning activity in the general fund. The following is the required information as it relates to this activity for the year ended March 31, 2006:

REVENUES	
Building Permits	\$ 1,505
EXPENDITURES	
Salary and fringes	9,897
Supplies and miscellaneous	3,574
Publications and notices	<u>1,021</u>
TOTAL EXPENDITURES	<u>14,492</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>\$ (12,987)</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Chippewa

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current tax levy	\$ 63,000	\$ 63,000	\$ 73,566	\$ 10,566
Delinquent personal property tax	100	100	1,174	1,074
Penalties and interest	50	50	-	(50)
Trailer park taxes	700	700	677	(23)
Property tax administration fees	-	-	5,040	5,040
Total taxes	63,850	63,850	80,457	16,607
Licenses and permits				
Building/zoning permits	3,000	3,000	1,505	(1,495)
Intergovernmental - State				
State shared revenue	192,000	192,000	326,197	134,197
Charges for services				
Cable franchise fees	12,000	12,000	13,884	1,884
Cemetery lots and grave openings	3,000	3,000	4,455	1,455
Total charges for services	15,000	15,000	18,339	3,339
Interest and dividends	5,000	5,000	13,857	8,857
Other				
Tribal gaming revenue	60,000	60,000	145,632	85,632
Miscellaneous	100	100	50	(50)
Total other	60,100	60,100	145,682	85,582
TOTAL REVENUES	338,950	338,950	586,037	247,087
EXPENDITURES				
General government				
Township board	14,500	14,500	12,746	1,754
Supervisor	14,500	14,500	13,635	865
Clerk	23,550	28,550	23,090	5,460
Board of Review	2,500	2,500	1,170	1,330
Treasurer	20,150	20,150	15,316	4,834
Assessor	33,800	34,100	22,169	11,931
Elections	6,200	7,400	1,847	5,553
Township hall	23,550	24,000	14,656	9,344
Cemetery	46,250	52,350	50,777	1,573
Other	15,100	15,100	13,192	1,908
Total general government	200,100	213,150	168,598	44,552

Township of Chippewa

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Public safety				
Fire department	\$ 129,000	\$ 129,300	\$ 98,390	\$ 30,910
Public works				
Street lights	7,060	7,060	6,766	294
Highways, streets, and bridges	130,800	130,800	4,675	126,125
Drains at large	5,000	5,000	3,589	1,411
Total public works	142,860	142,860	15,030	127,830
Community and economic development				
Zoning commission	16,300	17,500	14,492	3,008
Planning commission	18,850	19,550	12,346	7,204
Total community and economic development	35,150	37,050	26,838	10,212
Other				
Pension plan contributions and fees	10,000	10,000	9,054	946
Social security	6,500	6,500	2,422	4,078
Insurance	9,800	9,800	9,531	269
Emerald ash borer survey	-	100,000	41,120	58,880
Total other	26,300	126,300	62,127	64,173
TOTAL EXPENDITURES	533,410	648,660	370,983	277,677
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(194,460)	(309,710)	215,054	524,764
Fund balance, beginning of year	1,230,613	1,230,613	1,230,613	-0-
Fund balance, end of year	\$ 1,036,153	\$ 920,903	\$ 1,445,667	\$ 524,764

OTHER SUPPLEMENTARY INFORMATION

Township of Chippewa

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

March 31, 2006

	Trust and Agency	Current Tax Collections	Total
ASSETS			
Cash	\$ 643	\$ 5,799	\$ 6,442
LIABILITIES			
Due to State	\$ 643	\$ -	\$ 643
Due to individuals and agencies	-	5,799	5,799
TOTAL LIABILITIES	\$ 643	\$ 5,799	\$ 6,442

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

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MANAGEMENT LETTER

To the Board of Trustees
Township of Chippewa
Mt. Pleasant, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Township of Chippewa for the year ended March 31, 2006. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the Township's internal controls and our discussions with management.

1. The Board of Trustees should adopt a formal written policy for capital asset management.

During discussions with management, we noted that the Board of Trustees has not formally implemented written procedures and policies for capital asset management. We believe that by documenting specific policies, contractual employees will have a clearer understanding of the organization's expectations. We also believe that such documentation will provide greater internal control. This issue was noted and reported in our audit comments last year.

We suggest that the Board adopt a policy for the capitalization and disposal of capital assets. The policy should specify criteria for capitalizing assets, including the per unit dollar value threshold to be used. Items below the threshold established by the Board may be expensed as they are purchased. The policy should also specify that the disposal of capital assets requires formal approval by the Board of Trustees. Such approval should be documented in the minutes of the Board meetings.

2. The Board should amend the Township's investment policy to address the disclosures described by GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Township has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Township's funds. These resources are necessary for the delivery of the Township's services programs, or to carry out its fiduciary responsibilities. Effective for year ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Township's financial statements by GASB Statement No. 40.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated April 26, 2006.

This report is intended solely for the use of management and the Board of Trustees of the Township of Chippewa and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 26, 2006